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Vermont State Auditor

Auditor's Review of the Monitoring and Management of Entergy Nuclear Vermont Yankee's Decommissioning Trust Fund

Entergy's system of controls for safeguarding the assets of the decommissioning trust fund may benefit from additional State guidelines; State should also review the fund's status more frequently than every 5 years

MONTPELIER – Vermont State Auditor Tom Salmon reported today that Entergy and the State of Vermont had expected controls in place for managing and monitoring over \$400 million of decommissioning trust fund assets. However, he suggested several improvements to increase the likelihood that adequate assets will be available in the future to cover the costs of decommissioning the Vermont Yankee plant in Vernon, Vermont, primarily through more timely and complete monitoring of the trust fund by the Vermont Public Service Department (PSD).

“Entergy has established a range of policies and procedures to safeguard and manage assets which you’d expect to see in a trust fund and the State has instituted processes to monitor the sufficiency of the trust fund,” Salmon said. “However, we identified several points of concern and have made suggestions to provide greater assurance that the trust fund will have adequate resources in the future to pay for site cleanup as required by the State.”

At the request of five members of the Vermont General Assembly, the Auditor’s Office undertook a review of certain issues related to monitoring and managing the Decommissioning Trust Fund (DTF). “This was the first time the State of Vermont has taken an in-depth look at the trust fund and how it operates,” the Auditor noted. “In this report citizens can find an overview of how the trust fund is organized, managed and regulated to safely increase in value to meet future obligations.”

Salmon said the custodianship of the trust fund’s assets (valued at \$428 million on as of Dec. 31, 2009) as well as the accounting, recordkeeping and periodic reporting are managed by Mellon Bank, also known as The Bank of New York Mellon, under a Master Trust Agreement with Entergy.¹

¹ Entergy acquired \$310 million DTF assets when it purchased Vermont Yankee from Vermont Yankee Nuclear Power Plant in 2002.

Salmon said examples of good existing policies are those which:

- require the trust fund to be segregated from Entergy's other assets;
- prohibit investments in Entergy or its affiliates as well as prohibit Entergy from having day-to-day involvement in investment decisions; and
- limit fund expenses to those associated with site cleanup and administrative costs such as taxes, trustee and investment manager fees.

The Auditor said one issue is that the trust fund investment policy allows for significant flexibility in the amount of discretion granted to investment managers which could expose the fund to greater risks than desirable. Further, Salmon noted that Entergy's evaluation of investment managers' performance and how well investment managers adhered to investment policies was done by a checklist at the summary level. "We didn't see documentation that demonstrated a complete analysis of investment manager performance and compliance with investment policies was conducted by Entergy," he said. "Based on the documentation provided to us, the company should enhance its system of reviewing investment managers."

The report also concluded that the current requirement for the State to review the adequacy of the trust fund to meet all cleanup obligations every five years is not frequent enough. "Given the speed at which the financial investment markets can turn these days and the possibility that other significant changes in circumstances might occur during the period between the State's reviews, we suggest more frequent comparisons of expected decommissioning costs and anticipated trust fund assets," Salmon said.²

Auditor Salmon noted that Vermonters want to be certain that the funds set aside for decommissioning and cleanup will be available for this purpose when needed. He stated that "regardless of where you stand on the issue of re-licensing, everybody wants to be sure that the funds are being monitored properly and that the State's monitoring of the trust fund is robust and timely." He added that "I believe the suggestions in this report provide a road map to improve the State's monitoring and the Public Service Department has indicated its willingness to consider them."

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The complete report is available at www.auditor.vermont.gov. It includes responses by Entergy Nuclear Vermont Yankee and by the Vermont Department of Public Service.

Note to editors: Tanya Morehouse, CPA, Chief Auditor and principal author of this review, may be reached at 802-828-2281 or tanya.morehouse@state.vt.us to discuss any technical questions related to the report.

² The report notes that in July 2009 the Public Service Department recommended increasing the frequency of review to every 2.5 years.